

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------|---|-----------------|
| THE NOTICE OF PURCHASED |) | |
| GAS ADJUSTMENT FILING OF |) | CASE NO. 8735-G |
| B & H GAS COMPANY |) | |

O R D E R

On May 31, 1983, the Commission issued its Order in Case No. 8735 approving certain adjustments in rates and providing under certain conditions for the further adjustment of such rates when the wholesale cost of gas is increased or decreased or a refund is received.

On February 16, 1989, B & H Gas Company ("B & H") notified the Commission that its wholesale cost of gas had been increased by its supplier, Bradley and Son Oil and Gas Company ("Bradley"), on February 5, 1989. On March 15, 1989 and March 21, 1989, in response to information requests from the Commission, B & H submitted certain information to bring its filing into compliance with its purchased gas adjustment ("PGA") clause on file with this Commission.

After reviewing the record in this case and being advised, the Commission is of the opinion and finds that:

1. B & H's wholesale cost of gas from Bradley has been increased from \$2.50 to \$3.00 per Mcf, effective with a contract executed February 5, 1989. The effect of this increase on retail rates is a 33.51 cent per Mcf increase.

2. As part of the information required of B & H in this case, in an Order dated March 15, 1989, the Commission asked B & H to provide support for the reasonableness of passing through a charge of \$3.00 per Mcf from Bradley to its customers. This support was to include the availability of other sources of supply and the comparability of Bradley's charge to other sources. B & H's response indicated that there were no other sources available to B & H except Kentucky West Virginia Gas Company ("Ky. West") which is its secondary source of supply, and that Ky. West's BTU adjusted rate is \$3.37 per Mcf.

In the Commission's Order of March 15, 1989, B & H was asked if it foresaw another increase in price from Bradley at the end of the contract term. B & H and Bradley have been affiliates in the past and are proposed to be so again in the near future. The current owner of Bradley has applied with this Commission to acquire B & H. This transfer case is pending before the Commission. The Commission exercises additional oversight in cases where there is a less-than-arms-length transaction, pursuant to KRS 278.274. B & H indicated that, at the present, it does not foresee an additional increase in rates in the near future. Based on this response and the \$3.00 per Mcf charge as compared to Ky. West's \$3.37 per Mcf charge, Bradley's rate increase does not appear unreasonable. However, any additional increase in rates from Bradley will be scrutinized closely by this Commission in light of the less-than-arms-length relationship between Bradley and B & H and also because Bradley's price is now closely approaching the Ky. West price.

3. Because B & H did not provide 30-days' notice as required by statute for its increase in rates, and because its filing of February 16, 1989 did not include all the information required by its PGA clause, the effective date for the increase should be the date of this Order instead of February 5, 1989.

4. B & H's adjustment in rates under the purchased gas adjustment provisions approved by the Commission in its Order in Case No. 8735 dated May 31, 1983 is fair, just, and reasonable and in the public interest and should be effective with gas supplied on and after the date of this Order.

IT IS THEREFORE ORDERED that:

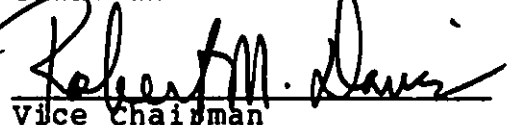
1. The rates in the Appendix to this Order, attached and incorporated hereto, shall be and they hereby are authorized effective with gas supplied on and after the date of this Order.

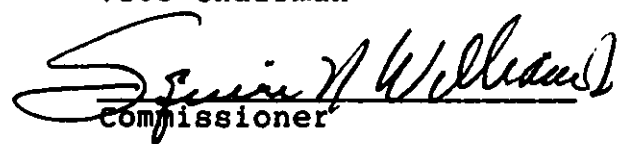
2. Within 30 days of the date of this Order, B & H shall file with this Commission its revised tariffs setting out the rates authorized herein.

Done at Frankfort, Kentucky, this 21st day of April, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8735-G DATED 4/21/89

The following rates and charges are prescribed for the customers served by B & H Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

RATES:

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|-------------|-------------------------|
| First 2 Mcf | \$9.3509 (Minimum Bill) |
| Next 8 Mcf | 4.3534 per Mcf |
| Next 20 Mcf | 4.0316 per Mcf |
| Over 30 Mcf | 3.8384 per Mcf |

The base rates for the future application of the purchased gas adjustment clause of B & H Gas Company shall be:

| | |
|-----------------------------|----------------|
| Bradley and Son Oil and Gas | \$3.00 Per Mcf |
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A surcharge in the amount of 69 cents per Mcf shall be added to the approved rates.